

PEREGRINE PETROLEUM LTD.



1983
Annual Report

Corporate Information

OFFICERS AND DIRECTORS:

Cameron J. McFeely, P.Eng.

President and Director

Lorna R. Ferris

Secretary and Director

Peter G. Smith

Director

Charles S. Dunkley, P.Eng.

Director

HEAD OFFICE:

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Calgary, Alberta T2P 3G6

(403) 265-0980

TRANSFER AGENT:

The Canada Trust Company

Calgary, Alberta

Vancouver, B.C.

AUDITORS:

Coopers & Lybrand

Calgary, Alberta

STOCK EXCHANGE LISTINGS:

The Alberta Stock Exchange

The Vancouver Stock Exchange

Trading Symbol "PGR"

Letter to Shareholders

Our activities in the last year have been focused principally upon our joint venture with The Mosquito Creek Gold Mining Company Limited and the gold mine at Wells, B.C.

Last year we reported a proposed financing in Peregrine through the facilities of the Vancouver Stock Exchange to follow a financing by Mosquito Creek. Unfortunately, the robust gold market on the Vancouver Stock Exchange aborted suddenly last summer and the Mosquito Creek financing barely squeaked through in June, 1983. Because of the ensuing deterioration in the market, Mosquito Creek did not benefit from additional funds expected from the exercise of warrants issued in their primary offering. Predictably it was not then possible to arrange a satisfactory public financing for Peregrine during the remainder of 1983 — although we did list Peregrine on the Vancouver Stock Exchange in anticipation of such a financing.

Like most gold producers in B.C. we have as our top priority the ensuring of our survival until the inevitable turn-around in gold prices takes place. We are pursuing therefore the arranging of financing through joint venture participation; current negotiations give us good reason for optimism in this direction. We hope to be able to make an announcement with respect to such an arrangement in the near future.

Submitted on behalf of the Board

A handwritten signature in black ink, appearing to be 'C.J. McFeely', with a long horizontal flourish extending to the right.

C.J. McFeely, P.Eng.
President

February 15, 1984

The Mosquito Creek Gold Mine

In December, 1983 milling operations were suspended as a result of the declining price of gold. A reduced mining and exploration program is being conducted until the operation is refinanced. We have had difficulty in maintaining and increasing our reserves due to a number of operational factors, primarily related to inadequate financing. During the year 18,946 tons of ore were processed yielding 6,630 ounces of gold.

In the summer of 1983 Mosquito Creek, on behalf of the Joint Venturers, acquired a lease on 14 Crown-granted mineral claims from Barkerville Mining Company Limited, ('NPL' ('Barkerville lease') and 17 Crown-granted mineral claims from Wharf Resources Ltd. ('Wharf lease'). These claims adjoin the Mosquito Creek block to the north west and north east and this acquisition approximately doubles the amount of favourable ground to be explored by our facilities. Last summer approximately 1,500 tons of surface ore were mined and milled under the Wharf agreement.

In 1983 Mosquito Creek's Consultants recommended an initial exploration and development program of the favourable Barker-Rainbow contact zone that traverses the property and which has not been fully explored along both its strike and plunge. This program was commenced in May, 1983 and although not completed, was successful in discovering and developing some 20,548 tons of ore of which 12,807 tons were processed and 7,741 tons were added to the reserves. In view of these results it is proposed that this program be modified on the basis of current information and continued on an expanded basis. The objectives of the program are to outline additional reserves, identify new areas having ore-making potential and to drive a central haulageway in preparation for the resumption of production when gold prices recover and the property can be operated at a profit.

The recommended program is estimated to take approximately eight months to complete and to cost approximately \$2,500,000. As stated earlier, we expect to finance this program by a joint venture between Peregrine, Mosquito Creek and a third party and negotiations to this end are currently in process.

Oil and Gas Properties

Canada

- A. Nipisi, Alberta — we participated in a successful oil well, Peregrine - 3.75% net profits interest before payout, 8.75% working interest after payout.
- B. Red Coulee, Alberta — participated in a dry hole, Peregrine - 33⅓%.
- C. Sweetgrass, Alberta — participated in a suspended gas well, Peregrine - 25%. This well tested in excess of 1 mmcf/day from the Moulton sandstone but produces excessive amounts of water. It may be economic to produce if cheap water disposal is available in the future.
- D. Holmberg, Alberta — we have now a total of six wells tied into Panther Resources' gathering system for their plant at Duhamel. Three of these wells are currently producing approximately a total of 3 mmcf/day (Peregrine - 1.875% - 2.97%). Three additional wells are expected to commence production in 1984.

United States

We are continuing our policy of reducing our obligations wherever possible by farmout or sale. We have reduced our interest in Montana to approximately 10,000 acres. We did arrange a farmout and had one well drilled on our Six-Shooter acreage in southwestern Montana. We sold approximately 5,000 acres retaining a small overriding royalty.

Subsequent to year end we farmed out our interest in approximately 2,000 acres in Cochrane County, Texas. We will be carried to casing point in the first well and will retain 5 - 10% interest in the acreage.

Other events subsequent to year-end

Peregrine arranged a \$600,000 flow-through financing with a major shareholder and to December 31, 1983 has participated in the following projects:

- A. Arcola, Saskatchewan — participated in a dry hole, Peregrine - 25%.
- B. Dover East, County of Kent, Ontario — participated in a Cambrian wildcat which was abandoned; Peregrine - 33⅓% before payout, 16⅔% after payout.
- C. Virden/Daly Area, Manitoba — participated in three potential oil wells and two dry holes, Peregrine - 50% before payout, 25% after payout. We are currently doing a seismic program preparatory to drilling four more close-in earning wells in the Daly area. We will be earning varying interests in approximately 1½ sections per earning well, so we could have a substantial development program on 40-acre spacing if any of these earning wells are successful.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Peregrine Petroleum Ltd. as at September 30, 1983 and the consolidated statements of loss, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at September 30, 1983 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand

Calgary, Alberta
December 9, 1983

Chartered Accountants

Francis G. Winspear Collection
Faculty of Business
University of Alberta

Consolidated Balance Sheet

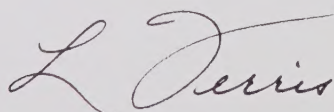
as at September 30, 1983

	1983 \$	1982 \$
ASSETS		
CURRENT ASSETS		
Cash		147,843
Accounts receivable (note 3)	211,798	247,289
Inventory	110,105	63,000
Marketable securities — at lower of cost and quoted market value \$60,635; 1982 - \$61,040 (note 6)	60,635	61,040
Due from a related party	51,345	330,557
Debenture receivable from a related party (note 13)	591,413	
	1,025,296	849,729
PROPERTY AND EQUIPMENT — at cost (notes 3, 7 and 13)	3,127,655	3,375,081
OTHER ASSETS — at cost	6,600	2,500
	4,159,551	4,227,310

SIGNED ON BEHALF OF THE BOARD



Director



Director

	1983 \$	1982 \$
LIABILITIES		
CURRENT LIABILITIES		
Bank indebtedness	1,856	
Accounts payable and accrued liabilities	176,989	293,584
Dividend payable	37,845	38,097
Due to related parties (notes 10 and 13)	695,380	603,958
Obligations under capital lease, current portion	48,633	26,500
Long-term debt, current portion	50,411	
	<u>1,011,114</u>	<u>962,139</u>
GAS PRODUCTION PREPAYMENT	19,834	—
LONG-TERM DEBT		
Bank loan (note 3)	1,274,000	1,300,000
Obligations under capital lease, less current portion (note 9)	71,504	124,674
Finance contract payable (note 4)	84,977	
Advances from a shareholder	7,155	1,378,440
Accrued interest payable to a shareholder	292,034	227,895
Debenture payable to a shareholder (note 5)	1,644,281	
	<u>3,373,951</u>	<u>3,031,009</u>
	<u>4,404,899</u>	<u>3,993,148</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK (notes 5, 8 and 13)		
Authorized —		
10,000,000 shares without nominal or par value		
Issued and fully paid —		
4,755,262 shares (1982 — 4,655,262)	4,632,110	4,540,110
DEFICIT	4,877,458	4,305,948
	<u>(245,348)</u>	<u>234,162</u>
	<u>4,159,551</u>	<u>4,227,310</u>

Consolidated Statement of Loss

for the year ended September 30, 1983

	1983 \$	1982 \$
INCOME		
Production — mine	1,959,321	1,751,396
— oil and gas (including Alberta Royalty Tax Credit)	618,432	696,486
Interest	81,846	13,095
	<u>2,659,599</u>	<u>2,460,977</u>
EXPENSES		
Production — mine	1,063,144	1,255,864
— oil and gas	101,156	93,185
General and administrative	234,295	311,462
Loss (gain) on foreign currency translation	(61,290)	37,584
Interest — long-term debt	319,044	264,900
— current	90,463	212,896
Lease rentals	3,340	2,557
	<u>1,750,152</u>	<u>2,178,448</u>
EARNINGS BEFORE OTHER CHARGES	<u>909,447</u>	<u>282,529</u>
OTHER CHARGES		
Depletion and depreciation — mine	1,028,102	1,639,900
— oil and gas	93,548	131,052
Dry holes and abandonments — oil and gas	319,304	330,686
Mining claims abandoned	60,274	432,240
	<u>1,501,228</u>	<u>2,533,878</u>
LOSS BEFORE OTHER INCOME (EXPENSE)	<u>591,781</u>	<u>2,251,349</u>
OTHER INCOME (EXPENSE)		
Gain on sale of interests in oil and gas properties	20,000	219,079
Gain (loss) on sale or write-down of marketable securities	271	(84,179)
	<u>20,271</u>	<u>134,900</u>
LOSS FOR THE YEAR	<u>571,510</u>	<u>2,116,449</u>
LOSS PER SHARE	<u>.12</u>	<u>.45</u>

Notes to Consolidated Financial Statements

for the year ended September 30, 1983

1. BASIS OF PRESENTATION

The recoverability of the amounts shown for mining properties and related costs and the continued operation of the company as a going concern is dependent upon the ability of the company to obtain necessary financing to continue the development of its mining properties and upon future profitable production. As a result the company is dependent upon its major shareholder for financial support of operations and advances for capital expenditures.

2. ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of Peregrine Petroleum Ltd. and its wholly-owned subsidiary, Peregrine Petroleum Inc.

Petroleum and natural gas properties

The company's accounting policy is to capitalize acquisition costs attributed to petroleum and natural gas properties. When properties are surrendered, the costs are written off as an expense in the year of abandonment. Lease rentals are expensed when incurred. Costs of drilling and equipping successful exploratory and development wells are capitalized. Gains or losses on dispositions of petroleum and natural gas properties are included in income and the costs of dry holes and abandonments are expensed.

Depletion and depreciation of the acquisition and development costs of producing properties and production equipment are calculated using the unit-of-production method, based upon proven recoverable reserves.

Mining properties

Acquisition costs and exploration and development expenditures relating to mining properties are deferred until the properties are brought into commercial production, at which time they are depleted on a unit-of-production basis, or until the properties are abandoned or sold, at which time the related costs are written off.

Joint ventures

Substantially all of the company's exploration and production activities are conducted jointly with others and the accounts reflect only the company's proportionate interest in such activities.

Earnings per share

Earnings per share are calculated using the weighted monthly average number of shares during the respective fiscal years. The effect of the exercise of potential conversion rights is anti-dilutive.

Inventory

Inventory represents unsold gold and mine supplies and is valued at the lower of net realizable value and cost.

Capital leases

Where the company acquires an asset through a lease under which substantially all the benefits and risks of ownership of the asset pass to the company, the company accounts for such a lease as a capital lease. The asset is recorded on the balance sheet at the lower of its fair market value and the present value of the future lease payments and a corresponding liability is set up as an obligation under a capital lease.

Translation of foreign currencies

Accounts maintained in foreign currencies have been translated into Canadian funds on the following basis: current assets, current liabilities and long-term liabilities at the rate of exchange in effect at the year end, property and equipment, including depreciation and depletion thereon, at the rate at the time of acquisition, and revenue and expenses at the average rates for the year. Gains or losses from the translation of the accounts maintained in foreign currencies are reflected in the statement of earnings with the exception of unrealized gains and losses relating to long-term debt which are deferred and amortized over the life of the related debt.

3. BANK LOAN

Book debts and production proceeds from certain petroleum and natural gas properties have been pledged as security for the bank loan, which bears interest at 1 % above the company's bank's prime lending rate. The interest rate at September 30, 1983 was 12 %. Although the bank loan is subject to call on demand, the company does not anticipate repayment within the next twelve months.

4. FINANCE CONTRACT PAYABLE

The finance contract payable is secured by certain mining equipment and bears interest at 13½ %. The debt matures in 1985.

5. DEBENTURE TO A SHAREHOLDER

Effective January 1, 1983 the company issued a \$1,500,000 floating charge debenture securing cash advanced by a shareholder. The debenture bears interest at 1 % above the company's bank's prime lending rate. The interest rate at September 30, 1983 was 12 %. Although the debenture and advances are subject to call on demand, the shareholder has agreed not to demand payment within the next twelve months. The debenture to a shareholder is convertible into common shares of the company at the following rates:

- One share for each \$0.75 of principal and interest outstanding to December 22, 1983;
- One share for each \$0.85 of principal and interest outstanding to December 22, 1984;
- One share for each \$0.95 of principal and interest outstanding to December 22, 1985;
- One share for each \$1.05 of principal and interest outstanding to December 22, 1986;
- One share for each \$1.10 of principal and interest outstanding to December 22, 1987.

6. MARKETABLE SECURITIES

The marketable securities consist of the following:

	1983		1982	
	#	\$	#	\$
Tyee Lake Resources Ltd. (N.P.L.)	56,000	15,680	56,000	15,680
The Mosquito Creek Gold Mining Company Limited	55,500	44,955	56,000	45,360
		<u>60,635</u>		<u>61,040</u>

7. PROPERTY AND EQUIPMENT

	Cost	Accumulated depreciation and depletion	Net Investment	
	\$	\$	1983	1982
			\$	\$
Petroleum and natural gas				
Properties	2,258,607	305,232	1,953,375	2,071,571
Production equipment	404,421	108,472	295,949	365,272
	<u>2,663,028</u>	<u>413,704</u>	<u>2,249,324</u>	<u>2,436,843</u>
Mineral				
Properties	4,125,443	3,426,633	698,810	738,774
Production equipment	1,392,051	1,228,419	163,632	177,389
	<u>5,517,494</u>	<u>4,655,052</u>	<u>862,442</u>	<u>916,163</u>
Office equipment	44,318	28,429	15,889	22,075
	<u>8,224,840</u>	<u>5,097,185</u>	<u>3,127,655</u>	<u>3,375,081</u>

8. CAPITAL STOCK

During the year, the company issued 100,000 shares in exchange for certain Australian petroleum and natural gas properties with an ascribed value of \$92,000.

9. OBLIGATIONS UNDER CAPITAL LEASE

The future minimum lease payments under the capital leases, together with the balance of the obligations under capital lease are as follows:

	\$
Year ending December 31, 1984	48,633
1985	<u>71,504</u>
Total minimum lease payments	120,137
Less: current portion	<u>48,633</u>
	<u><u>71,504</u></u>

10. RELATED PARTY TRANSACTIONS

The company's major shareholder and president is the major shareholder and president of Camac Explorations Inc. (Camac), Cormorant Resources Ltd. (Cormorant) and is also the president of The Mosquito Creek Gold Mining Company Limited (Mosquito Creek), a publicly traded company and operator of a gold mine in which the company has a 50% working interest.

The company participates with Camac in the exploration and development of oil and gas properties. During the year, the company expended \$26,000 (1982 - \$48,000) on oil and gas properties in which Camac has an interest. The balance owing to Camac, included in due to related parties, at September 30, 1983 is \$410,506 (1982 - \$457,700). This amount is non-interest bearing and has no fixed terms of repayment.

The company participates with Cormorant in the exploration and development of petroleum and natural gas properties. During the year, the company expended \$101,923 (1982 - nil) on petroleum and natural gas properties in which Cormorant has an interest. The balance owing from Cormorant is \$51,345 (1982 - nil). This amount is non-interest bearing and has no fixed terms of repayment.

During the year, the company received \$67,500 (1982 - \$45,000) from Mosquito Creek as compensation for management services. Amounts owing to and the debenture from Mosquito Creek are payable and receivable upon demand and bear interest at the bank prime rate plus 1½ %. The interest rate at September 30, 1983 was 12½ %. The balance owing to Mosquito Creek at September 30, 1983 is \$284,874. At September 30, 1982 Mosquito Creek owed the company \$330,557. The company has a debenture owing from Mosquito Creek including accrued interest at September 30, 1983 of \$591,413 (1982 - nil). The debenture is secured by a floating charge over mining properties and is convertible into common shares of Mosquito Creek as follows:

- One share for each \$1.35 of any principal and interest outstanding to February 28, 1984;
- One share for each \$1.60 of any principal and interest outstanding to February 28, 1985;
- One share for each \$1.85 of any principal and interest outstanding to February 28, 1986.

11. STATUTORY INFORMATION

The aggregate direct remuneration paid or payable by the company to the directors and officers of the company amounted to \$30,400 (1982 - \$28,500).

12. SEGMENTED INFORMATION

	Canada \$	United States \$	Other \$	Consoli- dated \$
1983				
SALES TO CUSTOMERS OUTSIDE THE ENTERPRISE				
Mining	1,959,321			1,959,321
Oil and gas	563,200	55,232		618,432
	<u>2,522,521</u>	<u>55,232</u>	<u>—</u>	<u>2,577,753</u>
SEGMENT OPERATING LOSS (PROFIT)				
Mining	303,524			303,524
Oil and gas	(110,832)	51,157		(59,675)
	<u>192,692</u>	<u>51,157</u>	<u>—</u>	<u>243,849</u>
GENERAL CORPORATE EXPENSE				
Interest (net)				327,661
LOSS				<u>571,510</u>
IDENTIFIABLE ASSETS				
Mining	1,624,700			1,624,700
Oil and gas	888,863	1,553,988	92,000	2,534,851
	<u>2,513,563</u>	<u>1,553,988</u>	<u>92,000</u>	<u>4,159,551</u>

1982**SALES TO CUSTOMERS OUTSIDE
THE ENTERPRISE**

Mining	1,751,396			1,751,396
Oil and gas	535,031	161,455		696,486
	<u>2,286,427</u>	<u>161,455</u>	<u>—</u>	<u>2,447,882</u>

SEGMENT OPERATING LOSS (PROFIT)

Mining	1,162,868	413,740		1,576,608
Oil and gas	(283,423)	358,563		75,140
	<u>879,445</u>	<u>772,303</u>	<u>—</u>	<u>1,651,748</u>

GENERAL CORPORATE EXPENSE

Interest (net)				464,701
LOSS				<u>2,116,449</u>

IDENTIFIABLE ASSETS

Mining	1,246,720			1,246,720
Oil and gas	1,622,041	1,358,549		2,980,590
	<u>2,868,761</u>	<u>1,358,549</u>	<u>—</u>	<u>4,227,310</u>

13. SUBSEQUENT EVENTS

- (a) Subsequent to the year-end, the company has farmed-in to Cormorant's working interest in certain Manitoba oil and gas properties. The drilling program will be financed from an issuance of 800,000 flow-through common shares at \$0.75 per share to the president of the company.
- (b) Subsequent to the year-end, gold production from mining operations in which the company has a 50% working interest have been suspended due to depressed gold prices. Activity at the mine will be limited to general maintenance and exploratory drilling such that the mine can resume full production in response to an improved gold price. The company and Mosquito Creek have agreed to offset the payable to Mosquito Creek and any future payables against the debenture receivable from Mosquito Creek.

PEREGRINE PETROLEUM LTD.

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